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# MICHIGAN OUTLOOK

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Government statisticians first recognized automobile manufacturing as a distinct industry in the Census of Manufacturers for 1905. There it is recorded that 9,023 of the 20,261 motor vehicles made in the United States rolled out of Michigan factories during 1904. In 1914, Michigan produced 443,072 cars, trucks, and buses out of a national total of 569,054. Production here and nationally continued to grow unevenly until 1929. Michigan was a leader out of the Great Depression, setting new vehicle production records by 1935.

To satisfy burgeoning demand for Michigan-made cars and trucks, employers recruited laborers from rural Michigan and from Ohio, Kentucky, Tennessee, and other eastern states, as well as from Canada, Ireland, England, France, Poland, and other European countries. The news of high wages in Detroit, Flint, Saginaw, Muskegon, and other automotive centers also reached Mexico, the Middle East, and more distant lands. As a result, although 3 percent of the U.S. population resided in Michigan in 1910, by 1920 the figure was 3.5 percent, in 1930, 3.9 percent, and in 1940, 4 percent.

During World War II, Southerners flocked to Michigan, the "Arsenal of Democracy." After the war, pent-up vehicle demand spurred Michigan's economy until the late 1940s. The Korean War was the stimulus during the early 1950s. In 1950, 4.2 percent of the nation's inhabitants lived in Michigan. The peak, 4.4 percent, was reached in 1956.

With the 1956 model year, manufacturers began to retrench because of a saturated vehicle market. The level of employment in this state declined by 300,000 between 1955 and 1961. The proportion of the population residing here slipped every year betwen 1956 and 1963.

Few experts in 1961 sensed the magnitude of demand for large passenger cars, station wagons, and pick-up trucks for personal use and that Michigan would experience another mighty economic boom. Between 1961 and 1965, Michigan vehicle production doubled. In a replay of the 1930s, from being among the most depressed, Michigan became one of the most labor scarce states, again recruiting Southern workers.

A 1964 treaty between Canada and the U.S. allowed vehicle makers to ignore trade barriers between the two countries. In the subsequent rationalization, Ontario and Quebec became more specialized in the assembly of vehicles, while Michigan and Ohio increased their concentration in component production. Michigan also increased its

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share of North American automotive research and development and of automotive white collar activity in general.

## A HIGH WAGE STATE

General Motors, Ford, and Chrysler pay well, particularly for relatively low-skilled workers. They set the tone in labor markets like Detroit, Flint, Saginaw, Lansing, and Ann Arbor, where they employ thousands.

Transitory demand for cars, trucks, and buses also affects the size of the paycheck; when vehicle sales are high, blue-collar workers can expect to work overtime. This phenomenon occurs because, by law, most employees who work more than 40 hours per week must be paid a wage at least 50 percent above their standard rate. Rather than hire and train workers, employers will pay the overtime premiums to meet short-run requirements. This gives them the flexibility of simply extending the length of the workshift, as well as avoiding fixed labor costs, such as training and certain fringe benefits. If an increase in demand seems long lasting, vehicle manufacturers and their suppliers recall those on lay-off and hire new workers, expecting to be able to recoup fixed labor expenses while reducing the cost of overtime.

Because of generally high wages, health care, cosmetology, dry cleaning, laundering, and other locally provided services are more expensive in Detroit, Flint, Saginaw, Lansing, and Ann Arbor than they are in Houston, Mobile, or, for that matter, Grand Rapids. The pay level makes local government more expensive in vehicle manufacturing centers. State of Michigan civil servants and elected officials are well paid for much the same reason.

For the downside of the automotive cycle, Michigan has developed a relatively liberal unemployment insurance scheme and social welfare system. Many employers pay supplemental unemployment benefits. These programs are necessary if Michigan is to hold a labor reserve for recoveries. Their effect is to make Michigan an affluent state even during depressed years. In 1980, for example, Michiganders had incomes that were, on the average, 4.5 percent above the national figure, despite the fact that unemployment here stood at 12.6 percent of the civilian labor force compared with 7.1 percent for the U.S. as a whole.

## SI QUAERIS PENINSULAM AMOENAM

The Wolverine State has over 3,000 miles of Great Lakes shoreline, 36,000 miles of river and stream, and 11,000 natural lakes. Fifty-five areas are devoted to downhill skiing, countless others to the cross-country variety and to snowmobiling. Nearly 20 percent of Michigan's land area is government owned. Huron, Manistee, Hiawatha, and Ottawa national forests occupy 2.7 million acres of northern Michigan. Keweenaw, Alger, Leelanau and Benzie counties host Isle Royale National Park, Pictured Rocks National Lakeshore, and Sleeping Bear Dunes National Lakeshore.

The restaurants, motels, and shops on Mackinac Island and in St. Ignace provide the economic lifeblood of Mackinac County, as well as summer jobs for college students throughout the state. Big Bay, Grand Marais, and Paradise would collapse without tourism. Petoskey, Old Mission, and Baldwin owe much of their prosperity to summer residents. Convention and tourist dollars are a substantial component of Traverse City's economy.

Agriculture is perhaps more diverse here than in any other state. We lead in tart cherry, navy beans, and asparagus production. Michigan is a leader in producing apples, blueberries, grapes, sugar beets, and pickling cucumbers. These crops and the industries that process them are vital to a number of small Michigan economies.

Agriculture also is an essential complement to Michigan tourism. Nationally known events such as the Holland Tulip Festival and Traverse City's National Cherry Festival attract thousands of Michigan residents and visitors from elsewhere. Tourists also are drawn to the wineries in the Paw Paw vicinity and to county fairs.

Good quality higher education is affordable by many households. Traditionally, both natives and newcomers who prospered by working at high paying factory jobs have supported higher education, because it can provide their children with the means to a better life. However, even in the best of economic times, Michigan's economy will not absorb all of its college graduates. Therefore, Michigan is a net exporter of college-trained young people.

## OTHER EXPORTS

Of the dozens of Upper Peninsula iron mines developed since 1853, three remain economically viable: the open pit Republic, Tilden, and Empire mines, all located in Marquette County. The Cleveland-Cliffs Iron Company (CCI), largest private employer in Michigan's Upper Peninsula (UP), provides 4,000 white- and blue-collar jobs at full production. It is the nucleus of partnerships that own these excavations and the nearby plants where pellets are produced for steel mills in Detroit, Chicago, Sault Ste. Marie (Ontario), and other places accessible by Great Lakes ore carriers. The Empire Mine seems to be in transition. It is owned by McLouth Steel Corporation, a bankrupt Detroit area supplier to the automotive industry, and International Harvester Corporation, a troubled, Chicago-based motor vehicle and farm equipment manufacturer, along with Inland Steel and CCI. The full extent of CCI's dependence on the automotive industry is not known.

Until the mid-1970s, Ontonagon County, like Marquette and Chippewa counties, was sensitive to developments in the market for motor vehicles. Using copper from the last UP mine, owned by Copper Range Company, McCord Corporation of Detroit fashioned radiator fins for Ford and Chrysler products. Today this copper fabricator restricts its radiator market to J. I. Case, John Deere, and other farm equipment makers.

During the mid-nineteenth century, a number of English, Dutch, and Swedish wood craftsmen settled in the Grand Rapids area. The Grand River furnished water power and transportation, and a tremendous variety of

trees provided the raw material that made Grand Rapids the furniture capital of America. Today the tradition lives on, although the focus has shifted from wooden household furniture to metal office systems. Steelcase, American Seating, Herman Miller, and other major producers are headquartered and conduct most of their manufacturing activity in the Grand Rapids-Zeeland area.

Whirlpool Corporation, known for its large home appliances as well as Sears, Roebuck and Company's principal supplier under the Kenmore label, is headquartered in Benton Harbor. White Consolidated makes refrigerators and freezers in Greenville, Belding, and Grand Rapids. There are other smaller, appliance makers and components suppliers in Greenville, Grand Rapids, Cadillac, Niles, Dowagiac, Mt. Pleasant, Kalamazoo, Adrian, Tecumseh, Livonia, Madison Heights, and Detroit.

Underground brine is the basis for chemical industries in Detroit, Muskegon, Ludington, and Manistee, as well as Midland, headquarters of Dow Chemical Corporation. Gypsum is mined in Grand Rapids and Alabaster, and salt in Detroit, Manistee, and Port Huron. Cement is made in Monroe, Wayne, Alpena, and Charlevoix counties.

Known primarily for its paper industry, Kalamazoo also hosts the Upjohn Company, a giant among pharmaceutical manufacturers. Park-Davis, Searle, and other drug manufacturers also have Michigan plants.

Kellogg Company, maker of breakfast foods, dominates the Battle Creek economy with its headquarters and plants. General Foods and Ralston Purina also make cereals there. Gerber Foods is headquartered in Fremont, Vlasic Foods in West Bloomfield, and Velvet Food Products in Livonia.

Amway, Burroughs, Chef Pierre, Franks Nurseries, Hudson's, Jacobson's, Kmart, Meijers, and Stroh Brewery are among the wide range of other nonautomotive companies headquartered in this state.

## EVENTS SINCE 1978

The first oil shock came in the fall of 1973. As a result of the Arab embargo, spot shortages occurred, and the price of petroleum shot up. The market for gas guzzling vehicles dwindled in 1974 and 1975 then recovered as oil prices stabilized at the new, higher level. From about 3 million in 1975, Michigan vehicle production recovered to a level of nearly 4 million during 1978. OPEC prices had resumed their rapid escalation even before April 1979 when long lines of cars formed at gasoline service stations in California. During the next two years pump prices doubled.

For Detroit, the other most significant event of 1979 was the new labor contracts between management and the United Automobile Workers. Anticipating a favorable 1980 model year, management bought labor peace. Bargainers failed to foresee that the high rate of price inflation, caused by escalating oil prices, and rapid increases in automotive wages, caused primarily by the cost of living adjustment, were to substantially widen the price gap between U.S. and Japanese vehicles.

A combination of inflation and actions by the Federal Reserve Board also raised interest rates by about 50 percent on the average betwen 1978 and 1981. These increases added to the cost of financing vehicle purchases, both at the dealer and final consumer level.

During 1978, 12.9 million cars, trucks, and buses were produced in this country. The 1980 figure was 8 million. During 1978, 2.3 million import vehicles were registered in this country. The 1980 figure was 3 million, most of them Japanese.

Overlaying this general malaise was the collapse of the Chrysler Corporation, a company which for two decades had allowed its U.S. operations to decay while obsessed with becoming a global producer. Plagued with production and quality problems, Chrysler was deeply troubled even before the 1979 hiatus. As a result of plant closings and other curtailments, Chrysler employment in Michigan alone dropped from 82,000 to 37,000 between the last quarter of 1978 and the first quarter of 1981. Their market more than halved, Chrysler suppliers cut their Michigan employment in proportionate numbers.

Between 700,000 and 750,000 Michigan white- and blue-collar jobs in manufacturing could be attributed to the production of cars, trucks, buses, and components during the fourth quarter of 1978.[1] In the eight-county southeast Michigan region there were 470,000 to 500,000 jobs, in northern Michigan, 15,000 to 20,000, and in southern outstate Michigan, 215,000 to 230,000. In February 1981 the number of jobs connected with making motor vehicles and components stood between 500,000 and 550,000.

Price rebates, declining interest rates, and an improved general economic outlook were responsible for modest sales gains of domestic makes early last year. This, along with production cuts during January, February, and March, reduced the backlog of unsold cars. But by fall 1981, price hikes on the new models coupled with a fresh spiraling of interest rates had halted the recovery. The inventory sales ratio for cars doubled between March and October.

Today, there are 525,000 automotive jobs in Michigan. Since 1978, the percentage decline in automotive and parts manufacturing employment has been greatest in northern Michigan (about 40 percent), next greatest in southeast Michigan (30 percent), and least in southern outstate Michigan (20 percent).

Tight money and high interest rates have had an even greater impact on housing and related industries than on the automotive sector. Nationally, the number of new housing units authorized totaled 975,000 during 1981, compared with 1,800,000 in 1978. The Michigan figures were 17,400 and 64,020. Fortunately, nonresidential construction is less depressed than residential; consequently construction employment declined by about one quarter from its 1978 level.

Michigan's wholesale trade, retail trade, government, finance, insurance, and real estate sectors also were geared to automotive production that numbered 700,000

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# Michigan Economic Indicators

| Item | Year previous of latest month | Previous month | Latest month |
|---|---|---|---|
| Manufacturing workers: | | | |
| Average weekly hours, Michigan | 41.1 | 40.1 | 39.8 (Mar.) |
| Average weekly hours, U.S. | 39.9 | 39.2 | 39.1 (Mar.) |
| Average hourly earnings, Michigan ($) | 10.27 | 11.03 | 11.16 (Mar.) |
| Average hourly earnings, U.S. ($) | 7.80 | 8.33 | 8.37 (Mar.) |
| U.S. motor vehicle production (units) | 786,862 | 468,467 | 664,116 (Mar.) |
| Michigan electricity usage (mil. kwh.) | 5,714 | 5,524 | 5,369 (Nov.) |
| Industrial (mil. kwh.) | 2,645 | 2,495 | 2,444 (Nov.) |
| Residential (mil. kwh.) | 1,745 | 1,674 | 1,634 (Nov.) |
| Raw steel production: | | | |
| Michigan (000 net tons) | 770 | 590 | 500 (Jan.) |
| United States (000 net tons) | 10,590 | 7,962 | 7,737 (Jan.) |
| Consumer price index (1967 = 100) | | | |
| Detroit area | 268.3 | 277.9 | 278.2 (Mar.) |
| United States | 265.1 | 283.4 | 283.1 (Mar.) |
| U.S. producer price index (1967 = 100) | 289.6 | 298.5 | 297.9 (Mar.) |
| Michigan farm prices received index (1977 = 100) | 127 | 134 | 135 (Feb.) |

Sources: U.S. Bureau of the Census; U.S. Bureau of Labor Statistics; Michigan Crop Reporting Service; Motor Vehicle Manufacturers Association, Inc.; American Iron and Steel Institute; and Energy Information Administration.

or more. They too were part of the downsizing of the Wolverine State economy between 1978 and 1981. Only the broad services sector grew, but at a much reduced rate by historical standards.

## AROUND THE STATE

Atlanta, Michigan, population 800, has been among this state's most devastated places as a result of the automotive decline (see table 1). A component plant there intermittently employed 300, mostly women, and paid slightly better than the $3.35 minimum wage. This plant, which assembled automotive wiring systems for Chrysler plants in Detroit, closed its doors in June 1980.

Standish was similarly affected, losing a wiring systems plant that supplied both Ford and Chrysler. Mancelona, Manistee, and Charlevoix have several small automotive suppliers whose activities have been curtailed. Reduced chemical production also cut employment in Manistee.

The severity of the downturn in Marquette is somewhat illusory in that 1978 was the peak year for construction activity at the Cleveland Cliffs Iron Company. CCI expanded its mining and ore processing facilities and increased the capacity of its electricity generating plant. With construction taken out of the data, there was an employment decline of around 12 percent instead of the 17 percent with construction workers included.

Newberry has felt the devastation more indirectly. To meet a burgeoning welfare budget, the state has skimped on several other programs. Activities at the Newberry Regional Mental Health Center have been sharply curtailed.

Of Michigan's sixty-three labor markets, nine are more distressed than the six-county Detroit region. None is a major metropolitan area. Nearly all are heavily dependent on the automotive industry as suppliers of components or minerals for steel making. The Detroit labor market has been more heavily affected than any other major metropolitan area in the state.

Among all Michigan labor markets, only eight posted gains between 1978 and 1981. The largest relative gain, in Ontonagon, represents a partial recovery from the 1975–78 cut-back that resulted from a sharp drop in copper production. The 20 percent job gain since 1978 is based upon a turnaround at the White Pine Mine plus a new industry, the Upper Peninsula Shipbuilding Company. UPSCO is producing barges designed to carry freight across Lake Michigan when the car ferries are retired. Baldwin has a tiny economy whose tourism and government sectors have made gains since 1978. The Escanaba gain is illusory; it consists primarily of construction workers who will depart when the new addition to the Mead Paper Mill is completed this fall. Greenville is benefiting from increased production of refrigerators and air conditioners. When General Motors sold Frigidaire to White Consolidated in order to change to production of small trucks in Dayton, Ohio, the Frigidaire equipment was moved to Greenville. Reed City, Fremont, and Mt. Pleasant have growing service and retail sectors. Three Rivers and Constantine, in the Sturgis area, are home to two new General Motors Hydramatic plants.

**TABLE 1**

**Percentage Change in the Number of Wage and Salary Jobs in Michigan Labor Markets: Peak Years Through 1981 (Based on annual averages)**

| Market | Peak to Trough Years | Percentage Change | Market | Peak to Trough Years | Percentage Change | Market | Peak to Trough Years | Percentage Change |
|---|---|---|---|---|---|---|---|---|
| Atlanta | 1978-81 | −30 | Battle Creek | 1978-81 | − 7 | Big Rapids | 1980-81 | − 2 |
| Standish | 1977-81 | −22 | Clare | 1979-80 | − 7[a] | Manistique | 1980-81 | − 2 |
| Coldwater | 1978-81 | −18 | West Branch | 1979-80 | − 6[a] | Alpena | 1980-81 | − 2 |
| Marquette | 1978-81 | −17 | Flint | 1979-81 | − 6 | Ironwood | 1980-81 | − 2 |
| Newberry | 1979-81 | −17 | Ludington | 1979-81 | − 6 | Cheboygan | 1980-81 | − 2 |
| Dowagiac | 1978-80 | −16[a] | Munising | 1980-81 | − 6 | East Tawas | 1979-81 | − 2 |
| Mancelona | 1979-81 | −11 | Cadillac | 1979-81 | − 5 | Roscommon | 1980-81 | − 1 |
| Manistee | 1979-81 | −10 | Hillsdale | 1979-80 | − 5[a] | Traverse City | 1980-81 | − 1 |
| Charlevoix | 1979-81 | −10 | Gaylord | 1979-81 | − 5 | St. Ignace | 1980-81 | − 1 |
| Detroit | 1978-81 | − 9 | Grayling | 1977-80 | − 5[c] | Rogers City | 1980-81 | − 1 |
| Mio | 1979-81 | − 9 | Muskegon | 1979-81 | − 4 | Kalamazoo | 1979-81 | − 1 |
| Adrin | 1979-81 | − 9 | Ann Arbor | 1979-81 | − 4 | Grand Rapids | 1979-81 | − 1 |
| Frankfort | 1979-81 | − 9 | Houghton | 1980-81 | − 4 | Lansing | 1979-81 | − 1 |
| L'Anse | 1978-81 | − 9 | Allegan | 1979-81 | − 4 | Mt. Pleasant | 1978-81 | + 3 |
| Caro | 1979-81 | − 9 | Sandusky | 1978-80 | − 4[a] | Sturgis | 1978-81 | + 4 |
| Benton Harbor | 1978-81 | − 8[b] | Iron River | 1978-81 | − 4 | Fremont | 1978-81 | + 5 |
| Sault Ste. Marie | 1977-80 | − 8[a] | Bay City | 1979-81 | − 3 | Reed City | 1978-81 | + 7 |
| Bad Axe | 1979-81 | − 8 | Alma | 1977-80 | − 3[d] | Greenville | 1978-81 | + 8 |
| Jackson | 1979-81 | − 8 | Menominee | 1979-80 | − 3[a] | Escanaba | 1978-81 | +12 |
| Iron Mountain | 1980-81 | − 7 | Midland | 1979-81 | − 3 | Baldwin | 1978-81 | +19 |
| Saginaw | 1979-81 | − 7 | Petoskey | 1979-81 | − 2 | Ontonagon | 1978-81 | +20[e] |

SOURCE: Developed from Michigan Employment Security Commission, special release.
a. Job gains occurred between 1980 and 1981. The rates of increase are Dowagiac, 2 percent; West Branch, 1 percent; Hillsdale, 2 percent; Sandusky, 2 percent; and Menominee, 1 percent.
b. Between 1973 and 1981 the number of jobs in Benton Harbor declined by 10 percent.
c. Between 1974 and 1980, the number of jobs in Grayling declined by 6 percent. Between 1980 and 1981 the number of jobs in Grayling increased by 5 percent.
d. Between 1973 and 1980, the number of jobs in Alma declined by 3 percent. Between 1980 and 1981, the number of jobs in Alma increased by 2 percent.
e. Between 1975 and 1978, the number of jobs in Ontonagon declined by 30 percent.
Note: Michigan's 83 counties are grouped into the 63 labor markets shown above except that Monroe County is part of the Toledo labor market (not shown). Multicounty labor markets are Battle Creek (Barry and Calhoun counties), Cadillac (Missaukee and Wexford counties), Detroit (Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties), East Tawas (Alcona and Iosco counties), Flint (Genesee and Shiawassee counties), Grand Rapids (Kent and Ottawa counties), Houghton (Houghton and Keweenaw counties), Kalamazoo (Kalamazoo and Van Buren counties), Lansing (Clinton, Eaton, Ingham, and Ionia counties), Muskegon (Muskegon and Oceana counties), and Traverse City (Grand Traverse, Kalkaska, and Leelanau counties). The other 51 labor markets are the counties in which the cities named in this table are located.

## PROSPECTS FOR 1982

The new contract between Ford and the UAW, and the prospect of one between GM and the UAW, eliminate the uncertainty surrounding the outlook for labor-management peace this fall. More importantly, they represent relaxation of the upward pressure on automotive wages. Perhaps their greatest impact will occur in the areas of employee involvement and productivity. More than anything else, U.S. industry must raise its productivity if it is to maintain market share in this country.

Other companies, particularly in the Detroit area, have renegotiated or are renegotiating contracts with their unions. The list will grow. This means that wages in Michigan's automotive centers will become more competitive with those in other parts of Michigan and the nation. The recent changes in workmen's compensation laws also will increase Michigan's competitiveness in regard to labor costs.

U.S. personal income taxes will be reduced on 1 July while spending on military procurement is rising. Very likely Social Security recipients also will receive increased benefits due to the inflation adjustment.

Meanwhile, money will be more plentiful in relation to demand. The supply is expected to continue to increase in the face of inventory reduction which curtails business financial needs. Consumers also have been repaying debt, which further reduces strains on financial markets. Also, the rate of increase in the Consumer Price Index will lie in the 4–6 percent range, providing there are no shocks such as a rise in food prices due to weather. Inflation was responsible for much of the pressure on interest rates during 1980–81.

The most recent projections by *Ward's Automotive Reports* suggest recovery in U.S. car production after an extremely depressed first quarter. Based on their scenario for the first nine months, car production for the year 1982 will total 5.7 million units. The 1981 figure was 6.2 million. Assuming a modest improvement in truck production, total vehicle assembly will stand at 7.6 million units during 1982 compared with 7.9 million for 1981. The number of vehicles rolling off Michigan assembly lines is likely to match 1981's 2.7 million.

A reasonable Michigan forecast is considerable improvement in April over a very depressed first quarter and a relatively flat economy between April and September. Expressed in number of wage and salary jobs, seasonally adjusted, the outlook is as follows:

| Period | Jobs |
|---|---|
| 1981, 4th quarter | 3,320,000 |
| 1982, 1st quarter | 3,200,000 |
| 1982, 2nd quarter | 3,240,000 |
| 1982, 3rd quarter | 3,245,000 |
| 1982, 4th quarter | 3,285,000 |

The sharp unturn in the fourth quarter assumes no credit crunch. Very tight money cannot be ruled out, however. Wall Street is uneasy about Washington's spending increases for military hardware and Social Security, simultaneously with the federal tax cut.

For the year as a whole, employment will be about 4 percent below the 1981 average if the forecast is borne out. The implication of this wage and salary forecast, patterned loosely after 1960 = 1981, 1961 = 1982, and 1962 = 1983, is 4 percent job growth between 1982 and 1983.

In southeast Michigan, General Motors is building new assembly plants in Detroit and near Pontiac. These are scheduled as 1984 replacements for antiquated facilities now in use. Considerable job loss because of automation and efficiencies in materials flow will occur. Assuming that the Japanese "just-in-time" system is developed at these new plants, suppliers will be encouraged to locate nearby. The Volkswagen plant planned for Sterling Heights also should attract suppliers and have other spinoff effects.

The simple fact of our being in the heartland of automotive manufacturing is an asset; there are economies in being near other plants. As U.S. capacity is reduced, the cutbacks are likely to be most pronounced in places distant from Michigan, Ohio, Ontario, and Indiana. This tendency is enhanced by the high import penetration of the West and East coasts, which reinforces the diseconomy of assembling cars in California and New Jersey. Ford already has closed its Mahwah, New Jersey, plant and General Motors, its Fremont and South Gate, California, plants. Ironically, legislation designed to provide domestic automotive jobs by forcing the Japanese to increase their production of vehicles in this country probably would work to the disadvantage of Michigan. It seems unlikely that Toyota and Datsun would assemble cars here. Production elsewhere would be a stimulus for suppliers to locate nearby.

On the minus side, it must be stressed that the popularity of small cars is not likely to diminish. Large cars will continue to diminish in size. These trends do not favor Michigan's steel mills, forging plants, and foundries. Smaller engines affect the market for Michigan-made piston rings and bearings.

Low skill automotive industry is leaving Michigan, not so much for inexpensive Southern labor as for the very low wage levels prevailing in Mexico, Spain, and Brazil. Some high skill operations such as engine making also are shifting there from the U.S.

Suppliers in this state are being pressured by General Motors, Ford, and Chrysler to cut prices of the products they sell to the Big Three. They can do this by shifting production to labor markets where the wage standards are set by farming, textile industries, furniture manufacturing, and other industries where wages and fringe benefits typically are low.

Because Detroit is unable to raise sufficient capital to finance all of the tooling and designing for the demands of the 1980s, more components will have to be sourced abroad. This is particularly true for engines, transmissions, and transaxles for front-wheel drive cars. Against this, a greater volume of export of Michigan specialties, such as stampings, forgings, and production machinery will be possible in the worldwide rationalization that is taking place.

Everything considered, Michigan can expect some job restoration in its automotive industry, to 550,000 or 600,000 during the next peak sales year but not the 700,000–750,000 at the previous peak. In the event of a Chrysler bankruptcy, cross off another 50,000–75,000 automotive jobs in this state.

Natural resources are a major asset. Forest products industries have been expanding in the Upper Peninsula and northern Lower Peninsula where trees are plentiful and labor is inexpensive. After the current slump, these industries can be expected to continue to grow rapidly. Cleveland Cliffs has ore reserves which have potential for new development if markets are favorable and if additional electric generating capacity becomes available in the UP. The White Pine Copper Company is installing a refinery at its smelter in Ontonagon County to remove silver from the yellow metal. That refinement will open new markets for Michigan copper.

Job growth is inevitable in the Grand Rapids area as a result of planned expansions currently underway in the office systems manufacturing industry. Besides hosting the major companies in this industry, Grand Rapids has a moderate wage, highly productive work force, almost no legacy of high-pollution industry, and is a pleasant area in which to raise a family.

Battle Creek is home to Fort Custer Industrial Park which has an enviable record of attracting new industry, particularly companies from overseas. Like Grand Rapids, this area can offer a modest wage, highly productive work force in a pleasant setting. For the same reason, growth in Kalamazoo seems likely to resume.

Lansing is a high wage area. Its future cannot be considered separately from that of Michigan State University whose agricultural college could attract high technology companies, particularly in the area of microbiology. Ann Arbor and the University of Michigan are capitalizing on outstanding engineering and medical colleges. Detroit has Wayne State University and the medical complex, providing a setting for medical robotics and electronics, as well as microbiology.

Flint, the state's highest wage area, is diversifying through development of a theme park based on the history of the automobile. Tourism is counted on to provide new jobs.

Prospects for the business travel-convention business in Detroit, Grand Rapids, Traverse City, Battle Creek, and lesser places are good. These developments plus increasing populations of affluent retirees and working couples bode well for restaurants, entertainment industries, and lodging establishments.

Michigan's prospects in the growing fields of information processing and automotive electronics are not clear. Comments made over two decades ago in this regard are valid today.

> Electronics in the Midwest lacks the explosive character of electronics on the Pacific Coast and in New England. This region does not lead in the development of new ideas and in the opening up of new fronts of activity. This is because electronics in the Midwest has for over a quarter century been more interested in the exploitation and the refinement of existing ideas and existing product lines than in opening up new fields or activity. It has been more concerned with trying to make money by redesigning established products than with attempting to grow from the exploitation of new products.[2]

However, in other areas of high technology Michigan is among the leaders. Automotive research and development is an obvious example. Other areas of high research activity in this state are pharmaceuticals and metals. Michigan leads the nation in the volume of business done by noncaptive, for-profit commercial research and development laboratories that operate on a contract or fee basis.

All things considered, Michigan has favorable prospects beyond 1982; employment growth averaging 3.5 percent between 1982 and 1985 is not an unreasonable expectation but recovery such as occurred during the 1930s and 1960s is. Michigan will not be able to provide the kinds of private sector jobs to absorb 100,000 to 150,000 permanently displaced automotive workers.

**FOOTNOTES**

1. Developed from David I. Verway, "Michigan's Automotive and Export Dependence," *The Michigan State Economic Record,* vol. 20, no. 9 (October 1978); *Motor Vehicle and Related Industries in Michigan* (Detroit: Michigan Employment Security Commission, 1981); and unpublished research by Maria C. Benson, Michael A. Fath, Sandra J. Friedle, David Naberhuis, and David I. Verway.
2. Frederick Emmons Terman, "Economics and Education in the Midwest," *The Michigan State Economic Record,* vol. 3, no. 1 (January 1961), p. 7.

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